



E. Hunter Harrison
President and
Chief Executive Officer

935 de La Gauchetière Street West
Montreal, Quebec H3B 2M9
Canada
T 514-399-4800
F 514-399-0896

Président-
directeur général

935, rue de La Gauchetière Ouest
Montréal (Québec) H3B 2M9
Canada
T 514 399-4800
Tc 514 399-0896

July 20, 2004

Mr. Melvin F. Clemens, Jr.
Director
Office of Compliance and Enforcement
Surface Transportation Board
1925 K Street, NW
Washington, DC 20423

2004 JUL 27 P 12:41
RECEIVED
COMPLIANCE
ENFORCEMENT
SURFACE
TRANSPORTATION
BOARD

Dear Director Clemens:

I am responding to Chairman Nober's June 9, 2004 letter regarding the demands of this year's fall shipping season and how these demands will affect CN and the rail industry. CN shares Chairman Nober's objective of achieving the highest possible level of operational efficiency for the railroad industry and service performance for the shipping public. We are constantly striving to enhance the efficiency of our operations, and thereby the service we provide to our customers.

As you are aware, CN operates under a "scheduled railroad" philosophy. As we define the term, scheduled railroading involves a disciplined process that handles individual car movements according to a specific plan where possible to meet agreed-upon customer commitments. Each trip plan, which is expressed in hours, is tailored to a specific customer location, day of week, and time of release and describes the handling of shipments from origin to destination.

With respect to the information requested by Chairman Nober, CN does not have a specific plan for the "Fall Peak" *per se*, as our scheduled railroad operating plan recognizes anticipated seasonal changes in business. With a scheduled railroad, and the investments we have made in our plant and infrastructure, CN has sufficient capacity throughout our system to handle customer demand.

... 2/

Mr. Melvin F. Clemens, Jr.
Page 2
July 20, 2004

As a result, we do not make structural changes to our scheduled railroad on a seasonal basis but, rather, make adjustments based on changes in customer forecasts throughout the year. We are currently forecasting the fall shipping season generally, including evaluating the grain markets and international intermodal volumes. At present, we are looking for strong volumes of business this fall, and while our ability to handle these volumes will be more dependent upon the level and timing, we expect to satisfy the anticipated demand.

We also have continued to work with other railroads to improve the performance of the overall North American rail network through various initiatives. It clearly is in the best interest of the industry as a whole and the shipping public to promote efficient, fluid freight movements throughout the system. Further, we are a major interchange partner with the U.S.-based railroads, and any systemic service difficulties that our partners or we experience have a downstream effect on us all.

While we are confident that CN will be able to meet the demands of the fall shipping season, we are, however, concerned about the fluidity of the rail network due to congestion at certain gateways. Of particular note is Chicago, the congestion problems of which are well documented. CN remains committed to the CREATE infrastructure initiative currently under consideration by Congress as part of the TEA-21 reauthorization legislation, which would bring important benefits over the long-run to the public in the Chicago area and beyond as well as to the railroad industry. However, even under the best of circumstances, it will take years before the full benefits of CREATE can be realized. In the meantime, we believe that all of the railroads serving Chicago need to work together to reduce the amount of traffic that moves unnecessarily through Chicago; to date, we have shifted or have the potential to shift switching or interchange operations for nearly 169,000 cars annually away from Chicago in an effort to ease congestion. In addition, CN has proposed in the past some structural solutions to address the situation in Chicago in the immediate future as well as over the longer term, but, unfortunately, there is no consensus on such initiatives at this time.

Mr. Melvin F. Clemens, Jr.
Page 3
July 20, 2004

Our concerns about shipment interchanges and network fluidity are not limited to Chicago, but also include to a lesser degree other important gateways to CN such as Buffalo, NY and Toledo, OH. CN is working collaboratively with the U.S. carriers to ensure the free flow of traffic through these important gateways. Through our gateway protocol models, we have already shifted traffic flows to more efficient, less congested routings. This is being done as a collaborative effort; we currently have dialogue ongoing on this initiative with the four largest Class I carriers, and the program already is well underway with CSX.

Of course, at times, circumstances can arise which preclude fulfilment of a customer's trip plan. In addition to our e-business tools that enable our customers to track their shipments, routine communications by our Account Managers and Customer Support Representatives with customers by phone, fax, and e-mail, as well as mail and e-mail communications on major issues from our Executive Vice President – Sales & Marketing, James Foote, we remain in close contact with our customers in those cases where disruptions occur. CN communicates service issues to customers pro-actively by e-mail and by posting the information on the CN website at http://www.cn.ca/customercommunications/en_index.shtml. We also send a State of the Railroad e-mail to customers who subscribe to that service and our Customer Service Representatives communicate directly with customers on service issues that may arise.

CN is focused and dedicated to ensuring that our customers receive the best transportation product available. We are sensitive to the importance of meeting the fall shipping season demands and will keep you apprised of any noteworthy developments in this area.

Thank you for the opportunity to comment on CN's service offering. Please contact me if you need additional information.

Sincerely,

A handwritten signature in black ink, appearing to read 'E. Hunter Harrison', with a long horizontal flourish extending to the right.

E. Hunter Harrison
President and
Chief Executive Officer

Mr. Melvin F. Clemens, Jr.
Page 4
July 20, 2004

cc: Chairman Nober
Vice Chairman Mulvey
Commissioner Buttrey
Acting Administrator Monro